



# Budget Narrative Instructions and Example

## What is a budget narrative?

A budget narrative explains and justifies the projected costs attributed to each line item or category within the budget and ties the budget to the proposed deliverables and statement of work. It plays a crucial role in clarifying the connection between the anticipated expenses and the proposed project's implementation outlined in the proposal. A well-crafted budget narrative provides transparency, explaining how each cost item directly contributes to achieving project objectives.

All applications must have a detailed budget narrative explaining and justifying the federal and the non-federal (cost share) estimated costs by object class category as listed in Section B, Budget Categories of the Budget Information for Non-Construction Programs Form (SF-424A) and the Construction Programs Form (SF-424C) for the construction costs for awards. The narrative must include an explanation of how the costs associated with each line item or category connect to project execution. For cost share, the estimated costs may be provided in the same level of detail as the federal estimated costs or as a fixed percentage of total project costs. Further, applicants should anticipate factors that may affect the budget when developing their projections and provide a narrative explanation of those factors.

## How should the budget narrative be written?

Write your narrative so that someone not familiar with the project can conceptually understand the rationale, purpose, and calculation of the estimated costs. There must be enough specific budget details included in the narrative to enable OCED to: (1) clearly understand why the costs are essential to meeting the projects objectives; (2) verify the reasonableness and allowability of the cost; and (3) ensure the appropriate application of fringe benefits and indirect cost rates.

The budget narrative template assists applicants in preparing their budget narrative. Applicants may use OCED's template or a different format of their choice. Regardless of format, you must provide all required information. The sample costs in the template may not fit the purposes or activities of the program identified in the Funding Opportunity Announcement. For any budget category with no associated costs or activities, respond "Not Applicable" under the budget category title.

## What are the requirements of a budget narrative?

The budget narrative must be concrete and specific, provide a justification for the basis of each proposed cost, and an explanation for how that cost was calculated. Examples to consider when justifying the basis of your estimates can be ongoing activities, market rates, quotations received from vendors, or historical records.

The narrative must demonstrate that costs are allowable. Costs must be necessary and reasonable for the performance of the Federal award and must be allocable under the cost principles at 45 CFR §75 Subpart E. A

necessary cost meets a program objective, and a reasonable cost meets the “prudent person” standard laid out at 45 CFR §75.404.

A cost is allocable to a particular Federal award if the goods or services involved are assignable to that Federal award in accordance with relative benefits received. For example, if you charge 100 percent of an expenditure to a Federal program, you must ensure that the Federal program receives the entire benefit of the expenditure.

#### **Should we duplicate information from the budget justification workbook in the budget narrative?**

You do not need to repeat the dollar amounts, hours, unit prices, or pricing tables that are already presented in the budget justification workbook or established indirect rate agreements. However, the narrative should list each element of proposed costs and provide additional clarifying information where necessary. When practical, you may cite dollar amounts where they are helpful to your narrative. You can also reference the budget justification workbook as needed (e.g., *the proposed hours, hourly rates, and annual labor dollars for the Contracts Manager are displayed in the budget justification workbook. We proposed 120 hours for this position based on prior experience on projects of similar size and scope and based on the estimated distribution of labor for this individual*).

### Who reviews the budget narrative?

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The cognizant Grants and Agreement Officer for your award will review the budget narrative.

### Can I make updates to the budget narrative?

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If prompted by the Grants and Agreement Officer (G/AO), you may revise the budget narrative document. However, updates should only be made in response to a request from the G/AO or Federal Project Manager. You should not proactively revise and resubmit the budget narrative document after your initial submission.

### How should we present our cost share budget?

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Cost share is typically presented as a fixed percentage of the total award amount or as a contribution towards the costs of specific project elements. If you are proposing cost share as a fixed percentage, please include the percentage amount for each cost category. Regardless of how you present the information in the budget narrative, you are subject to meeting the total cost share amount per the award terms. Please identify whether cost share is cash or in-kind, and the source of the cost share.

### What information should I include in each cost category?

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You must provide a detailed narrative describing how you arrived at the numbers in your budget for each cost category. There is guidance below for each cost category. Please also refer to the Example Budget Narrative at the end of this document for more information.

#### **A. PERSONNEL**

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This category includes salaries and wages of applicant organization’s employees who will be working directly on the project. Personnel costs must use methodologies consistent with the applicant organization’s compensation and timekeeping policies. Further, personnel costs must be treated consistently across both Federal and non-Federal activities. Review your organization’s applicable cost principles ([2 CFR §200.430 Compensation – personal services](#))

or [FAR 31.205-6 Compensation for personal services](#)) for more information on the specific requirements regarding compensation costs. Organizations under the Uniform Guidance cost principles must comply with the Standards for Documentation of Personnel Expenses at 2 CFR [§200.430\(i\)](#). The more detailed guidance in 2 CFR §200.430(i) may be helpful for all organizations, not just those who fall under the Uniform Guidance cost principles, as every organization is required to provide adequate documentation for claimed costs and ensure sufficient internal controls.

## B. FRINGE BENEFITS

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Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits typically include, but are not limited to, the costs of leave (vacation, family related, sick or military), employee insurance, pensions, and unemployment benefit plans. Fringe costs may also include other benefits such as training, health and wellness, or other reasonable benefits that aren't required by law but are required by an established policy of the Non-Federal entity or an agreement between the entity and its employees and not otherwise unallowable (e.g., entertainment expenses or alcoholic beverages). Fringe benefits does not include Federal income taxes, employee portion FICA, or other such costs. Award funds may be requested to fund fringe benefits as a direct cost.

Fringe benefits are typically determined by application of a calculated fringe benefit rate for a particular class of employee (full time or part-time) applied to the salaries and wages requested. They also may be paid based on actual costs for individual employees. Organizations under the Uniform Guidance cost principles should review [2 CFR §200.431 Compensation – fringe benefits](#) and for-profit organizations should review [FAR 31.205-6\(m\) Fringe benefits](#) for more information on the allowability and allocability of fringe benefits. If applicable, identify the amount of Federal funding and non-Federal funding that will be used to pay these costs, or state if you are providing a fixed percentage of the fringe benefit costs as cost share.

Fringe benefits can be expressed as an hourly rate or percentage of personnel costs. If your fringe rate is established within a Negotiated Indirect Cost Rate Agreement (NICRA), provide a copy of the agreement with the application.

If you do not have approved rates, we need you to provide additional narrative supporting the fringe costs here. In the narrative, identify the fringe benefit rates/amounts for each position and include the computational basis for the fringe expense pool and corresponding allocation base for each rate. You do not need to repeat the details that are already provided in the budget justification workbook.

## C. TRAVEL

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Travel costs are expenses incurred by personnel in the performance of project activities. Costs can be charged on an actual cost basis, or on a per diem or mileage basis in lieu of actual costs incurred. Applicants may also use a combination of the two, provided that the method used is applied to the entire trip and not to select days of the trip. All charges must be consistent with the organization's established travel policies. Organizations under the Uniform Guidance cost principles should review [2 CFR §200.475 Travel costs](#) and for-profit organizations should review [FAR 31.205-46 Travel costs](#) for more information.

## D. EQUIPMENT

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Equipment is defined as tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000. Organizations under the Uniform Guidance cost principles should review [2 CFR §200.439 Equipment and other capital expenditures](#) for additional information on the allowability of equipment costs and [2 CFR §200.313 Equipment](#) for information regarding the title, use, management and disposition requirements for equipment acquired under a Federal award. All organizations, regardless of the applicable cost principles, should review [2 CFR §910.360 Real property and equipment](#).

## E. SUPPLIES

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Organizations under the Uniform Guidance cost principles should review [2 CFR §200.453 Materials and Supplies Costs, including the Costs of Computing Devices](#), regarding the allowability of costs. Supply items must be direct costs to the project and not duplicative of supply costs already included in the indirect rate. For post-award requirements regarding supplies, review [2 CFR §200.314 Supplies](#), and for financial management requirements related to supplies, [2 CFR §200.302\(b\)\(4\)](#). For-profit organizations should review [FAR 31.205-26 Material costs](#) regarding the allowability of costs. Supplies means all tangible personal property other than those described in the definition of equipment. See 2 CFR 200.1 - Definitions.

Computing devices (computers) can be considered supplies, but computers costing more than \$5,000 require prior written approval to be charged as a direct cost. Also, computing devices (computers) can be charged directly to the award for devices that are essential and allocable to the performance of the award even if the computer is not solely dedicated to the award.

## F. CONTRACTUAL

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This category includes all consultants, contracts and subawards. For each contract, describe the services to be obtained and their applicability or necessity to the project. Identify the total estimated cost and the basis(es) used to develop the estimate. Review [2 CFR §200.1 Definitions](#) and [2 CFR §200.331 Subrecipient and contractor determinations](#) for additional information. In addition, you may find the "[Subrecipient vs. Contractor Checklist](#)," helpful. **Further, applications must include adequate justification for how prime recipients determined the relationship is that of contractor (as opposed to subrecipient) for each planned contractor relationship.**

**Consultants:** List the total costs for all consultant services. Identify each consultant, the services he/she will perform, total number of days, rate of pay, travel costs, per diem, and total estimated costs.

**Contract:** A contract is for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor. See [2 CFR §200.331\(b\)](#) for characteristics indicative of a procurement relationship.

**Subaward:** A subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient. See [2 CFR §200.331\(a\)](#) for characteristics which support the

classification as that of a subrecipient. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program.

## G. CONSTRUCTION

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Leave blank, no construction activity is authorized for the current project phase. Contact your Grants and Agreements Officer for any questions.

## H. OTHER DIRECT COSTS

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This category contains planned direct costs that are not appropriate to propose in any of the previous categories. List the items by type or nature of expense, and identify the basis of cost (quote, invoice, past experience, estimate, etc.). Describe the necessity of the costs for successful completion of the project and exclude unallowable costs. Review [2 CFR §§200.420 - 200.476, General Provisions for Selected Items of Cost for additional information](#). Do not duplicate costs that are already included in another cost category.

## I. INDIRECT COSTS

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Indirect costs are those costs incurred for common or joint objectives of the overall operation of the organization and which cannot be readily identified with an individual project, function, or activity. The purpose of indirect cost rates is to equitably distribute those costs among all the work that the non-Federal entity engages in using an appropriate allocation base. Review [2 CFR §200.1 - Definitions](#). In addition, organizations under the Uniform Guidance cost principles should review [2 CFR §§200.412 – 200.415 Direct and Indirect \(F&A\) costs](#) for information on classifying costs. For-profit organizations should review [FAR 31.202 Direct Costs](#), [FAR 31.203 Indirect Costs](#), and [FAR 31.201-6 Accounting for unallowable costs for classifying costs](#).

**Option 1:** If the applicant has a current Negotiated Indirect Cost Rate Agreement (NICRA), it must be included with the application. The budget justification worksheet must use the rates in accordance with the negotiated rate agreement.

**Option 2:** If the applicant does not currently have a negotiated rate agreement, the budget may include a 10% de minimis rate of modified total direct costs. The Modified Total Direct Cost (MTDC) base is all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. For further information on modified total direct costs, refer to [2 CFR §200.414 Indirect \(F&A\) Costs](#).

**Option 3:** If the applicant does not have a NICRA and is proposing a rate greater than the 10% de minimis rate, describe the basis of estimate for the proposed indirect cost rate. *Note that indirect costs in excess of the 10% de minimis rate that are not supported by a NICRA will typically not be allowable until the negotiation of an indirect rate with the organization's cognizant agency for indirect costs.* If applicable, identify the amount of Federal funding and non-Federal funding that will be used to pay these costs.

# Example Budget Narrative

Organization Name:	ABC Corporation
Project Title:	Save the Planet
Prepared by: (name, title)	John Smith, Senior Engineer
Pending OCED Award #:	123456789

## A. PERSONNEL

Refer to the budget justification workbook for the basis of estimate for each employee and labor category. The basis of estimate identifies the hourly rates, total hours, and total project costs proposed for each position. Our cost share is fixed at 40% of the total award, including personnel costs. We will cover 40% of the budgeted costs and 100% of any amount that exceeds the proposed budget.

### **Project Coordinator:**

This position directs the overall operation of the project. They are responsible for overseeing the implementation of project activities, coordination with other agencies, development of materials, conducting meetings and coordinating with agencies, designing and directing the gathering, tabulating and interpretation of required data, overall program evaluation, and staff performance evaluation. The Project Coordinator is the responsible authority for ensuring necessary reports and documentation are submitted to DOE. Per the list of responsibilities above, this position relates to all program objectives. Based on our organization's prior experience on similar sized awards, we estimate the project coordinator will spend an average of 20 hours per week on the project objectives during budget period 1.

### **Environmental Scientist:**

This position provides technical support required by the statement of work and by analyzing the environmental impact at the intended project site and will serve as a primary point of contact for environmental permitting. The individual targeted for this position is an outside hire and the annual salary shown in the basis of estimate is a projection based on market research and current bid rates.

## B. FRINGE BENEFITS

Refer to the budget justification workbook for the basis of estimate for each employee and labor category. Our cost share is fixed at 50% of the total award, including fringe benefit costs. We will cover 50% of the budgeted costs and 100% of any amount that exceeds the proposed budget.

The proposed fringe benefits use the rates established in accordance with the Negotiated Indirect Cost Rate Agreement (NICRA) or Indirect Cost Rate Agreement or Provisional Billing Rate agreement dated\_\_\_\_. The approved fringe benefit rate(s) is X%. The budget justification workbook provides additional explanatory details about the elements of our fringe rate(s).

## OR

We do not have a negotiated fringe benefits indirect rate. Our fringe rate is X% for full-time staff, X% for part-time staff, and X% for Union/CBA staff. For each category, the fringe rate contains the costs of benefits required by law (Social Security, Medicare, FUTA, SUTA, etc.) and benefits that we provide to all employees such as employee training, health insurance contributions, life insurance plans, paid time off, sick leave, and wellness incentives. The Union/CBA rates include additional benefits as negotiated and documented in the CBA. We outlined the computation of our fringe rate and proposed fringe benefit costs in the budget justification workbook.

## C. TRAVEL

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Refer to the budget justification workbook for the basis of estimate and all travel costs including airfare, per diem, lodging, transportation, and miscellaneous travel expenses. The purpose of the proposed travel and how it contributes to accomplishing the project objectives is described below. Our cost share is fixed at 50% of the total award, including travel costs. We will cover 50% of the budgeted costs and 100% of any amount that exceeds the proposed budget.

### Domestic Travel

- **Trip 1:** The Project Manager will travel for two days to Denver from Washington D.C. for the required project presentation. Costs are budgeted based on estimates for economy airfare, lodging and per diem at GSA locality rates, and other miscellaneous expenses such as baggage fees, parking, airport shuttles, rental car.
- **Trip 2:** The Project Coordinator will travel from [origin] to [destination] on [travel dates] to present outcomes at the National Demonstration Project meeting. The event will be held on [meeting date]. Traveler is requesting lodging for two nights and is requesting per diem for travel days. Ground transportation is requested.

### Foreign Travel

- **Trip 1:** The Chief Technical Officer (CTO) will travel to Rio de Janeiro, Brazil to present the project highlights and results at the 2024 G20 Summit. As required by the scope of work, the CTO will also attend the North American Presidential gala held two nights prior to the summit at the Copacabana Palace. The estimate for travel costs includes the cost of lodging, airfare, daily per diem, and other miscellaneous travel costs. We estimate meal costs for travel days only because they will be provided by the Summit. All provided costs are estimates based on the Summit schedule. We will purchase airfare and reserve lodging closer to the event, while still early enough to obtain favorable rates.

## D. EQUIPMENT

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Refer to the budget justification workbook for the list of equipment including the quantity, unit costs, and basis of cost. The purpose of the equipment and how it assists with accomplishing the project objectives is described below. Our cost share is fixed at 50% of the total award, including equipment costs. We will cover 50% of the budgeted costs and 100% of any amount that exceeds the proposed budget.



This project includes the production of lines of cultured cells from invasive mussel species. Long-term cell culture success relies on storing cells and reagents at ultracold temperatures. The requested new freezer will be used for both primary and backup storage of cells and reagents to ensure that ultracold storage continues uninterrupted in the event of equipment failure. The \$X estimate is based on the published price for a Thermo Scientific Revco RLE Series Ultra-low Freezer. Rental cost of similar freezers ranges from \$X-\$X per month, or approximately \$X over the term of the agreement.

One sub-molecular package including a chromium diffractometer, a multipath molecular analyzer, and a variably tuned process refracting populator will be purchased for an estimated cost of \$X. This estimate is based on a vendor quote received by Vendor ABC dated January 2023. The equipment will be housed in the quantum laboratory office and checked out by the principal investigator and staff when they go out into the field. The equipment is needed to study the feasibility of coherent energy transfer in microtubules. This equipment is not available for rent. The proposed equipment will be covered by non-Federal funds.

Acoustic transmitters and receivers: This equipment will be used for [description].

## E. SUPPLIES

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Refer to the budget justification workbook for the list of supplies including the quantity, unit costs, and basis of cost. The purpose of the supplies and how they assist with accomplishing the project objectives is described below.

Our cost share is fixed at 50% of the total award, including supplies cost. We will cover 50% of the budgeted costs and 100% of any amount that exceeds the proposed budget.

The pressure gauge and tubing are necessary to complete the column tests.

The pump will be used to load and regenerate columns (Tasks 1, 3, 5) and the instrument consumables will be used for the analytical analyses identified in Tasks 1-6. The instrument consumables were estimated using actual costs from a previous project and the other items were estimated using vendor estimates.

Staff will use general office supplies to carry out daily project activities.

## F. CONTRACTUAL

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Refer to the budget justification workbook for the amounts, type, and basis of estimate for each contract/subaward/consultant. The purpose of the contract/subaward/consultant and how it assists with accomplishing the project objectives is described below.

Our cost share is fixed at 50% of the total award, including fringe benefit costs. We will cover 50% of the budgeted costs and 100% of any amount that exceeds the proposed budget.



## Consultant

- We need to hire a consultant to assist with facilitation, technical assessments, and preplanning activities as needed. We have conducted preliminary price analysis and found average fees for facilitation consultants in the area are \$150 per hour. The estimate would provide 75 hours of facilitation work focused on the development of the strategic plan, for a total cost of \$X.

Our procurement policies require that we obtain at least three quotes for services and the selection will be based on best value (qualifications and price).

## Contract:

- We researched water quality support cost estimates from Virginia Water Authority, who maintains a fee for service pricing structure and provides expertise focused on the watershed. Rates for water quality support average \$50 per hour and the project estimate would provide 40 hours of support for preplanning activities. The proposed consultants will be covered by Federal funds.

## Subawards

- **Subaward 1:** Outline the purpose and description of subaward, along with any helpful additional narrative to support the budget justification worksheet.
- **Subaward 2:** Outline the purpose and description of subaward, along with any helpful additional narrative to support the budget justification worksheet.

## G. CONSTRUCTION

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No construction activity is authorized for the current project phase.

## H. OTHER DIRECT COSTS

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Refer to the budget justification workbook for the amounts, type, and basis of estimate for each element of other direct costs (ODC). The purpose of the ODC and how they assist with accomplishing the project objectives is described below. These costs were estimated using actual costs from a previous project and the other items were estimated using vendor estimates.

Our cost share is fixed at 50% of the total award, including ODC. We will cover 50% of the budgeted costs and 100% of any amount that exceeds the proposed budget.

We signed a two-year lease for laboratory facilities and setup the necessary utility services. We plan to rent [description of equipment] from [Organization ABC] for six months or until we no longer need it to support [description of the activity].

We will host regular office hours for our community members and offer tours of our facilities. We entered into an agreement with the local transit authority to share costs for increasing the frequency of shuttles to our facility so more project personnel can use public transportation.

## I. INDIRECT COSTS

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Our cost share is fixed at 50% of the total award, including indirect costs. We will cover 50% of the budgeted costs and 100% of any amount that exceeds the proposed budget.

As stated in our [NICRA or Indirect Cost Rate Agreement or Provisional Billing Rate Agreement] dated [XX/XX/XX], our indirect rate(s) is/are [XX]% for an effective period spanning [XX/XX/XX to XX/XX/XX].